Testimony of Iowa Corn Growers Association
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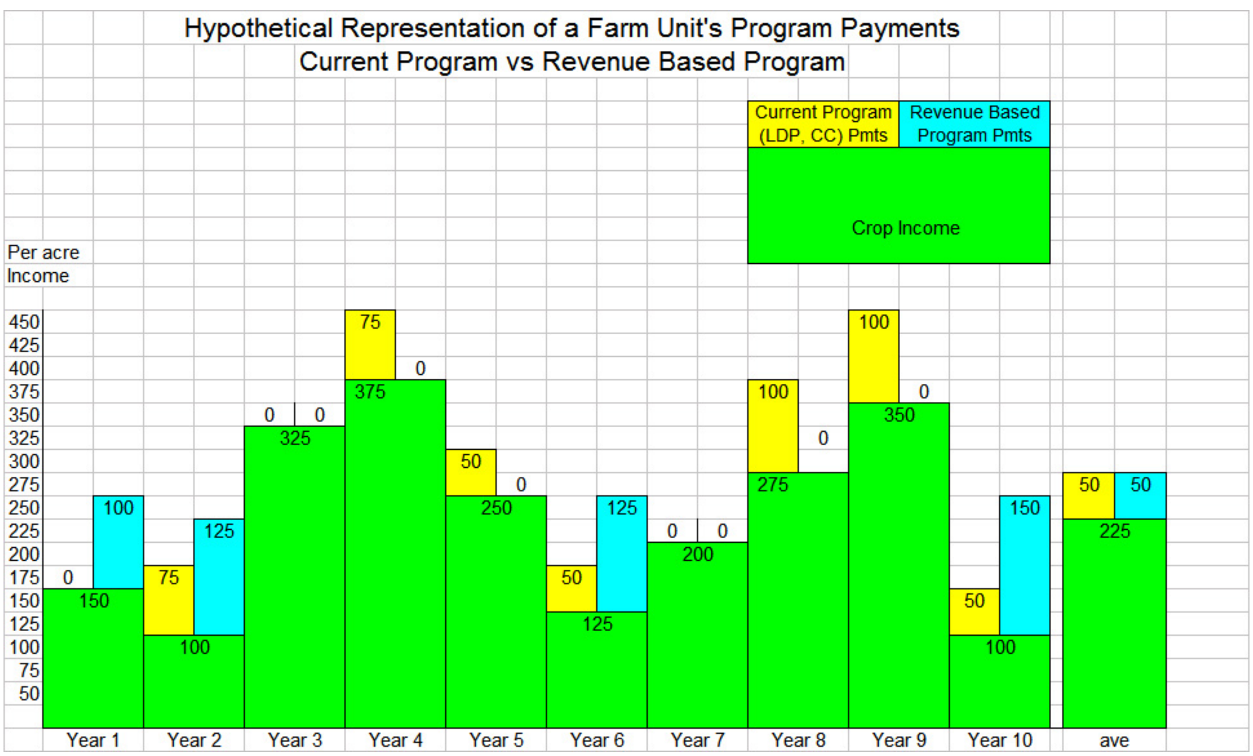
Thank you, Senators, for this opportunity to present input on the 2007 Farm Bill from the Iowa Corn Growers Association and our 6,000 farmer-members.

Approximately 2 years ago, our association started identifying and discussing ways the Farm Bill could be improved for the 2007 authorization. Our association's mission is *"Creating Opportunities for Long-Term Iowa Corn Grower Profitability"*. Therefore, ICGA was looking for modifications that would provide long term benefits to American agriculture rather than just asking for "continuation of the same and more is better." In that search, we identified three major items we want to be included in the debate, as well as some additional suggestions.

First, we would like a commodity title that is based on revenue rather than price to ensure a true safety net that provides farm security but also targets payments in the years that farmers most need them. The attached chart illustrates how the two types of programs would compare in timing for delivery of benefits. In 2005, with good growing conditions, my crop revenue was similar to that of Year 8. My friends in the eastern part of Iowa, where dry weather caused yields--and crop revenue--to be reduced by approximately 40 percent, more closely identified with Year 6. The downfall of a price based safety net is that benefits are not directed to those suffering financial losses. In fact, with our marketing loan program, the more yield hardship a producer has, the less program support there is for them. Last year I was able to collect an LDP on 200 bushels per acre corn yield whereas my friends in the drought area not only suffered less crop revenue, they were only able to collect an LDP on only 120 bushels per acre.



If we were to develop a farm program in a country where farmers are just beginning to produce more than needed for self-sufficiency, it is doubtful we would advise a program similar to what ours has evolved into. We would probably construct one that would payout when a producer's net income drops below a percentage of normal. Factors such as price, yield, and expense would be components. We would try to base the reference and trigger calculations on local conditions rather than national, but not so individually tailored that an individual farmer could significantly and/or fraudulently influence them.

Among farmers, there are two sides in this debate. New entrants into production agriculture who typically have limited equity, and their lenders, would probably prefer receiving program benefits when there is reduced revenue; established producers--many of whom view this farm bill as the last one during their tenure as primary decision maker--probably prefer a continuation so they will not have to familiarize themselves with a new program. Given our mission statement and desire to see young entrants start farming, we come down firmly on the side of a revenue program.

Specifically, our first major item is that we support a revenue program utilizing a basic level of support that can be classified as WTO green box, and also an additional level of support classified as WTO amber box. This type of program could be constructed to provide the same, or higher, level of support that we currently have; or it could provide a less expensive, yet still very effective level of support depending on how much money Congress allocates. If a Doha round WTO agreement is reached that reduces our amber box limits, the second level of support could easily be reduced and a third level added that would fall under the "new" blue box classification to retain support at or near current levels. This type of program can work for nearly any crop--not just the current program crops.

Second, we think the direct, decoupled payment program should be continued in substantially its current form. This will allow continuity with the current program, resulting in less confusion for everyone, as well as providing a WTO green box program--provided the fruit and vegetable planting restriction is eliminated. We would like to see the delivery of those payments modified, however, so at least a portion of them could be targeted toward a menu of activities that would help improve the farm, its management or the rural communities. Such activities could include investment and participation in value-added agricultural enterprises; on-farm conservation projects; additional risk management activities; and/or farmland value enhancing efforts. A potential delivery mechanism could be income tax credits against qualifying Schedule F expenses.

Third, the Farm Bill must contain a strong conservation title. There are a number of beneficial conservation measures, but I will discuss two today. The current CSP program has a worthy intent of "rewarding the best and incenting the rest." However, funding cuts have drastically changed the program except for those who, for either personal preference or economic reasons, are already utilizing conservation measures at a relatively high level. We realize there is insufficient farm bill funding to provide acceptable payments to all producers the program was designed to reward. However, because funding is so limited, only a few watersheds qualify for entry into the program each year; and within those watersheds a relatively small number of producers meet the qualifications of eligibility for payment at levels sufficient to entice signing up for ten years under relatively restrictive guidelines. If CSP could be revised to adequately fund more farmers on a more consistent and less restrictive basis, this program should be continued in the next farm bill.

The EQIP program does a good job of assisting producers, especially livestock producers, with installing the structures necessary to help meet clean water guidelines. We think it is essential to continue assisting livestock producers meet those mandated guidelines. Livestock consumes the grain and the DDGS co-product of ethanol production; after being digested, nutrients are left behind to return to the soil to help raise grain the next season for livestock feed and ethanol production. ICGA recognizes the importance of livestock to the booming renewable fuels industry and also recognizes how key that sector is to the agricultural nutrient cycle.

There are some other issues we wish to have the 2007 Farm Bill address:

1. We think there is an overwhelming need to discuss capital gains tax issues during the Farm Bill debate even if there is no tax title. There are two reasons: (a) 1031 exchanges seem to be artificially increasing the value of farmland and consequently land costs to farmers; (b) it would be desirable to have a viable alternative that allows farmers to transfer control of assets to the next generation of producers during their lifetime rather than through their estate when that next generation is nearing retirement age.

Current capital gains tax rules stifle the younger generation from entering production agriculture by artificially driving up land costs and consequently land rents. The 1031 section of the tax code is widely used because many sellers of assets with large capital gains prefer to pay a premium over market price to allow them to postpone paying capital gains tax, rather than to pay the tax on the gain. In the case of farmland, there is a minimal amount of farmland for sale being chased by an abundance of 1031 exchange monies. Therefore farmland prices, and consequently farm rents, are being driven much higher than productive value justifies. In fact, at Iowa State University Extension meetings for landowners, the message is that cash rents should no longer be a function of land values.

Under current law, the only way to unconditionally transfer land to others without being subject to capital gains taxes is for it to pass through an estate. This causes farmland--and to some degree, entire farming operations--to be transferred to children who themselves are nearing retirement. This accumulation of land in the hands of those who have little reason to leverage the asset for maximum economic activity works to the detriment of agricultural entrepreneurialism and rural prosperity.

2. Trade. Many think that with the volume of corn used for ethanol production catching up with the volume being exported, trade and trade agreements will be of less importance to agriculture. We absolutely do not agree. Not only is the value of our livestock exports increasing rapidly, there are more DDGS resulting from ethanol production than our livestock sector consumes, and they need to be exported to keep ethanol production costs in line. It is essential that we have a strong trade title to the Farm Bill, to continue to improve market access for farm products.

3. Research and Energy. We think that with the expected upcoming demand on agricultural commodities, research for agriculture is vital to being able to feed and fuel the world's population in the future. Research to increase the efficiency of extracting energy from agricultural production and rural areas is so expensive, and the benefits so widely utilized, that a national source of funding continues to be necessary.

Cellulosic ethanol (particularly from switch grass) seems to be the "darling" topic of domestic renewable energy conversations. We believe the demand for ethanol will be great enough in the future that other feedstock options besides corn will need to be utilized. Our members believe they and their fellow farmers will be able to efficiently produce many of these feedstocks. However, we think it is important to recognize that extracting energy from corn is an existing, viable method. A portion of the research dollars available for renewable energy should be devoted to the feedstock already at the refinery, so even more energy could be derived from corn ethanol.

4. Rural Development. We think vibrant rural communities are key to maintaining a desirable agricultural production sector. Without fully functional rural communities, families will not want to stay in rural areas. That would open the door to multi-national corporations controlling much of production agriculture. In addition to the current rural development programs, we would like to see a portion of the direct, decoupled payments of the commodity title be targeted, in part, to rural development activities as explained previously in these comments.

Thank you for the opportunity to comment on behalf of the Iowa Corn Growers Association.